

Message Text

LIMITED OFFICIAL USE

PAGE 01 NICOSI 02723 01 OF 03 290322Z

20

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 SR-02 ORM-03 L-03 H-03 PM-07 ACDA-19 SAM-01

SAJ-01 CG-00 DOTE-00 DLOS-07 FMC-04 DODE-00 PA-04

USIA-15 PRS-01 DRC-01 AGR-20 /247 W
----- 090674

R 281630Z AUG 74

FM AMEMBASSY NICOSIA

TO SECSTATE WASHDC 9748

INFO AMEMBASSY ATHENS

AMEMBASSY LONDON

USMISSION EC BRUSSELS

USMISSION NATO

USMISSION USUN NEW YORK

LIMITED OFFICIAL USE SECTION 1 OF 3 NICOSIA 2723

E.O. 11652: N/A

TAGS: ECON, EAID, CY

SUBJ: POST-WAR CYPRUS ECONOMY

REF: NICOSIA 2713

SUMMARY: IF PEACE RETURNED TO AN ECONOMICALLY DIVIDED
CYPRUS, THE SOUTHERN (GREEK) PORTION COULD PROBABLY ABSORB
THE REFUGEES AND BALANCE ITS TRADE AT ABOUT HALF THE
CURRENT IMPORT LEVEL. CRITICAL TO THIS ESTIMATE, HOWEVER,
COULD BE WHETHER FAMAGUSTA CITY REVERTS TO GREEK CONTROL
AND WHETHER THE GREEKS REGAIN ACCESS TO THE AIRPORT AND
THE USE OF FAMAGUSTA AND XEROS PORTS AND THE NICOSIA
INDUSTRIAL DISTRICT. THE GOVERNMENT WILL IN ANY CASE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 NICOSI 02723 01 OF 03 290322Z

FACE A CRITICAL REVENUE PROBLEM THIS AUTUMN, AND ITS

SUCCESS IN ADJUSTING TO THE STRAITENED CIRCUMSTANCES OF SOUTHERN CYPRUS WOULD DEMAND A DEGREE OF GOVERNMENTAL DIRECTION OF ECONOMIC ACTIVITY WHICH IT HAS NEVER CONTEMPLATED, PLUS SOME VERY DIFFICULT POLITICAL DECISIONS TO DEVELOP A NEW TAXATION STRUCTURE AND TO EMBARK DELIBERATELY ON A CUTBACK TO ECONOMIC CONSUMPTION LEVELS OF A DECADE OR MORE AGO. THESE DECISIONS WOULD HAVE TO BE TAKEN AGAINST A BACKDROP OF WIDESPREAD UNEMPLOYMENT WHICH CAN ONLY BE MET GRADUALLY BY REVIVING TOURISM, AN INTENSIVE PROGRAM TO DEVELOP NEW EXPORT INDUSTRIES, AND PERHAPS BY EMIGRATION.

A. INTRODUCTION

1. HERewith A FIRST ROUGH CUT AT MEASURING CYPRUS' ECONOMIC PROBLEMS IF IT IS EFFECTIVELY DIVIDED, AND WHAT CAN BE DONE ABOUT THEM. (IF A HAPPIER RESOLUTION OCCURS, WE WOULD BE GLAD TO DISCARD THESE PROJECTIONS.) THESE ARE OUR OWN THOUGHTS. WE HAVE DISCUSSED MOST OF THEM WITH GOV'T LEADERS, BUT THEY HAVE NOT BEGUN TO ADDRESS THIS GLOOMY CONTINGENCY EXCEPT TO MEET EMERGENCY PROBLEMS (REFTEL.)

B. ASSUMPTIONS

2. WE MAKE THE FOLLOWING "NEXT TO WORST CASE" ASSUMPTIONS. THE TURKS WILL HAVE A SINGLE CANTON WHICH THEY WILL MANAGE, LARGELY EXCLUDING GREEKS AND ISOLATING IT ECONOMICALLY FROM THE GREEK CANTON. THE BORDER OF THE TURKISH CANTON WILL RUN FROM THE SEA AT XEROS ON THE WEST, THROUGH LEFKA AND ASTROMERITIS, ALONG THE NORTH SIDE OF THE ROAD FROM THERE VIA THE CENTER OF NICOSIA TO FAMAGUSTA ("NEW ROAD"), AND INCLUDING THE PORT AND OLD TOWN OF FAMAGUSTA. (WE WILL SEPARATELY DESCRIBE THE IMPORTANCE OF GREEK ACCESS TO THE AIRPORT, TO THE PORTS AT XEROS AND FAMAGUSTA, TO THE NEW INDUSTRIAL ESTATE AT NICOSIA AND FAMAGUSTA NEW CITY. ALL BUT THE AIRPORT ARE NOW IN TURKISH HANDS.)

C. IMMEDIATE ISSUES

3. THE CENTRAL PROBLEM WILL BE TO RE-START AN ECONOMY WHICH HAS ALMOST STOPPED NORTH OF THE TROODOS, TO GET SHIPPING GOING, AND LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 NICOSI 02723 01 OF 03 290322Z

EVENTUALLY THE AIRPORT.

4. CREDIT. THE CRISIS CAME WHEN A LONG BUILDING BOOM WAS ALREADY COLLAPSING, CREDIT WAS ALREADY VERY TIGHT AND UNEMPLOYMENT WAS BEGINNING TO RISE IN THE CONSTRUCTION INDUSTRY (WHICH NORMALLY ABSORBS 10 PERCENT OF THE LABOR FORCE.) THEN CAME THE CRISIS AND THE COLLAPSE OF ECONOMIC ACTIVITY, THE LOSS TO THE TURKS OF MANY OF THE ASSETS ON WHICH LOANS WERE

OUTSTANDING, AND THE SUDDEN DEPRECIATION OF OTHER ASSETS (PARTICULARLY LAND.) A WAVE OF BANKRUPTCIES THREATENS UNLESS FIRMS AND INDIVIDUALS ARE "CARRIED" BY THE BANKS AND CREDITORS.

5. LOSS OF GOVT REVENUES. THE FINANCE MINISTER CONSIDERS THIS THE WORST OF ALL THE CURRENT PROBLEMS. IMPORT DUTIES ALONE CONSTITUTE SOME 30 PERCENT OF GOVT REVENUES AND DEPEND UPON CONSUMER AND LUXURY GOODS IMPORTS, WHICH OF COURSE HAVE SIMPLY DRIED UP. THE MINISTER OF FINANCE ESTIMATES A GOVT DEFICIT THIS YEAR OF 38 PER CENT OF PLANNED EXPENDITURES, AND A CASH CRISIS PROBABLY THREATENS THE GOVT RIGHT NOW. (EFTEL.)

6. UNEMPLOYMENT. CONSTRUCTION OF PARTLY COMPLETED BUILDINGS SEEMS GENERALLY TO HAVE STOPPED, AND ONLY THE DRAIN OF MEN INTO THE NATIONAL GUARD HAS MITIGATED THE UNEMPLOYMENT PICTURE. WITH TOURISM NON-EXISTENT, THE AIRPORT AND FAMAGUSTA HARBOR AND THE PRINCIPAL ORE-LOADING PIER AT XEROS IN TURKISH HANDS, EXCHANGE-EARNING ACTIVITIES ARE DISRUPTED, AND THROUGHOUT THE ECONOMY THE PROSPECT OF LAYOFFS IS ASSUMED, THOUGH EMPLOYERS WE HAVE ASKED CLAIM STILL TO HAVE MOST PERMANENT EMPLOYEES ON THE PAYROLL (REFLECTING A RATHER PATERNALISTIC TRADITION.)

7. FOREIGN EXCHANGE PROBLEM. ON THIS KEY INDICATOR, THE SIGNALS ARE MIXED BUT PERHAPS NOT SO BAD AS THE GREEK CYPRIOTS ARE SAYING.

A) FOREIGN EXCHANGE HOLDINGS WHEN THE CRISIS BEGAN WERE NEARLY \$300 MILLION, OR EIGHT MONTHS AT RECENT (AND NOW UNREALISTIC) IMPORT LEVELS.

B) DESPITE THE PUBLICIZED LOSS OF MOST OF THE PRODUCTION AREA FOR CITRUS, A ROUGH BUT BROADER LOOK AT THE MAJOR EXPORTS (THEMSELVES CONSTITUTING ABOUT 60 PER CENT OF EXPORTS) SHOWS THAT LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 NICOSI 02723 01 OF 03 290322Z

NEARLY 60 PER CENT OF THEIR PRODUCTION COMES FROM AREAS STILL HELD BY THE GREEKS. THE PLANNING DIRECTOR CLAIMS THAT FOR ALL EXPORT GOODS, THE PROPORTION IS REVERSED. PERHAPS WE ARE CLOSER TO RIGHT IF THE FACILITIES DESCRIBED PARENTHETICALLY IN PARA 2 ARE AVAILABLE TO THE GREEKS, AND HE MAY BE RIGHT IF THEY ARE NOT. (THE ORE PORTO OF XEROS ALONE HANDLED SOME 14 PER CENT OF CYPRUS EXPORTS IN 1972.) BROWN

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 NICOSI 02723 02 OF 03 282042Z

20

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 SR-02 ORM-03 L-03 H-03 PM-07 ACDA-19 SAM-01

SAJ-01 CG-00 DOTE-00 DLOS-07 FMC-04 DODE-00 PA-04

USIA-15 PRS-01 DRC-01 AGR-20 /247 W

----- 087086

R 281630Z AUG 74

FM AMEMBASSY NICOSIA

TO SECSTATE WASHDC 9749

INFO AMEMBASSY ATHENS

AMEMBASSY LONDON

USMISSION EC BRUSSELS

USMISSION NATO

USMISSION USUN NEW YORK

LIMITED OFFICIAL USE SECTION 2 OF 3 NICOSIA 2723

C) THE QUESTION OF INVISIBLES. CYPRUS IS PERHAPS UNIQUE IN THAT EXPORTS COVER LESS THAN HALF ITS IMPORTS, AND THE FAVORABLE BALANCE ON INVISIBLES COVERS THE REST. FOUR OF THE PRINCIPAL ITEMS IN THAT INVISIBLE BALANCE WERE BRITISH BASE EXPENDITURES, TOURISM, PRIVATE LONG-TERM CAPITAL MOVEMENTS, AND ANKARA'S SUBSIDY TO THE TURK CYPRIOTS (WHICH WORKED ITS WAY BACK THROUGH GREEK HANDS BECAUSE OF THEIR CONTROL OF COMMERCE AND THE PORTS.) THE BRITISH FAMILIES HAVE LEFT, REDUCING THAT SOURCE. TOURISM AND CAPITAL INFLOW WERE SPOOKED OFF BY THE CRISIS; THE TURKS WILL PROBABLY RUN THEIR OWN ECONOMY, THROUGH THEIR OWN PORTS. MAKING SOME HEROIC ASSUMPTIONS, AND ASSUMING THAT THE OUTFLOW OF CERTAIN INVISIBLES WILL DECLINE, WE GUESS AT A DECLINE OF MORE THAN HALF IN THE NET INVISIBLE INCOME. THIS BRIEF

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 NICOSI 02723 02 OF 03 282042Z

SURVEY SUGGESTS THAT VISIBLE AND NET INVISIBLE EXTERNAL REVENUES MAY BE HALVED IN THE NEXT SEVERAL YEARS, OR SLIGHTLY

WORSE.

D) SET AGAINST THIS IS THE QUESTION OF IMPORTS. SOME 35 PERCENT OF THESE ARE CONSUMER GOODS. THIS IS AN AUTOMOBILE ECONOMY; THE RATIO OF VEHICLES TO PEOPLE ON THE GREEK SIDE IS ABOUT 5:1 (COMPARABLE TO ITALY AND NOT FAR BEHIND NORTHERN EUROPE), AND IT HAS ALL HAPPENED RECENTLY. WE ASSUME A VIRTUAL CESSATION OF CONSUMER DURABLE IMPORTS AND LUXURY CONSUMABLES, A SIMILAR DECLINE OF PRODUCERS' GOODS IMPORTS, AND SOME DECLINE IN RAW MATERIAL IMPORTS REFLECTING REDUCED ECONOMIC ACTIVITY PLUS EARLIER STOCKPILING. BASIC FOODSTUFF IMPORTS WILL PROBABLY RISE SHARPLY THIS YEAR AND THEREAFTER STAY UP. IT WAS A RECORD YEAR FOR GRAINS, BUT THE GRAIN COMMISSION ESTIMATES THAT HALF THE CROP IS STORED BEHIND TURKISH LINES, AND IT HAS LOST MOST OF ITS OWN STOCKS. THE DISRUPTION IN THE CENTRAL PLAIN HAS PROBABLY CAUSED ANIMAL LOSSES, AND SOME OF BEST GRAIN AND MEAT-PRODUCING AREAS ARE IN TURKISH HANDS.

E) WE CAN TALK ONLY IN ILLUSTRATIVE TERMS, BUT PICTURE ABOVE SUGGESTS POSSIBILITY OF FUTURE FOREIGN EXCHANGE OPERATION ON AUSTERE LINES OF EARLY SIXTIES, AND FOREIGN EXCHANGE RESERVES SHOULD PROVIDE A YEAR OR TWO TO ACHIEVE NEW TRADE BALANCE. (PLANNING DIRECTOR ADMITS FOREIGN EXCHANGE NOT IMMEDIATE PROBLEM, BUT FINANCE MINISTER CALCULATES HALF OF PRESENT RESERVES WILL BE EXHAUSTED BY YEAR END. WE SUSPECT THIS IS PESSIMISTIC, UNLESS GOVT GIVES FREE HAND TO IMPORTS TO CONTROL PRICES AND STIMULATE ECONOMY.)

8. ABSORPTION OF REFUGEES. CLAIMS STILL VARY IN 160,000-200,000 RANGE, 40,000 OF THEM FROM FAMAGUSTA, PERHAPS 75,000 FROM AREAS NOW OCCUPIED BY TURKS, REMAINDER DISPLACED FROM AREAS THREATENED BY TURKS. ON IMMEDIATE REFUGEE RELIEF SIDE, UNHCR GUESSES HARD CORE IS 40,000 (POORER ONES FROM PRESENT TURK AREAS) PLUS SOME OR MOST OF THOSE DISPLACED FROM FAMAGUSTA. SEPTELS REPORT RELIEF EFFORTS. BROADER QUESTION IS WHETHER ECONOMY COULD ABSORB ADDED POPULATION IF IT CAN'T GO HOME. WE ESTIMATE SOME 75,000 GREEKS LIVED IN TURKISH CANTON DESCRIBED PARA 2, SOME 35,000-50,000 TURKS
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 NICOSI 02723 02 OF 03 282042Z

SOUTH OF IT. IF MOST MOVE IN EACH DIRECTION, WE ARE TALKING IN TERMS OF ACCOMMODATING POPULATION INCREASE OF ONE-TENTH IN REMAINING GREEK AREA, OR ONE-FIFTH IF THEY CANNOT RETURN TO FAMAGUSTA. WITH SECOND INCREMENT THEY WOULD HAVE MASSIVE PROBLEM, BUT INFRASTRUCTURE IS GOOD, AND ONE-TENTH DOES NOT POSE INSUPERABLE BURDEN. NICOSIA MUST EITHER FIND A NEW WATER SUPPLY OR ARRANGE WITH THE TURKS FOR THE CONTINUANCE OF SUPPLY FROM THE PRESENT SOURCES WHICH ARE NOW MOSTLY IN TURKISH HANDS. FORTUNATELY, ELECTRIC POWER ORIGINATES

ENTIRELY IN THE SOUTH, AND WATER FOR ELECTRICITY MAY BE THE FIRST EXPLICIT OR TACIT BARGAIN. IF NOT, THE GREEK SIDE WILL HAVE EXCESS POWER AVAILABLE. HOWEVER, THE REAL PROBLEM IS THE COMPOUNDING OF UNEMPLOYMENT. NOTHING WE HAVE SEEN OFFERS AN IMMEDIATE SOLUTION, AND PERHAPS WE MUST HOPE THAT THE FAMILY SYSTEM CAN BE RELIED UPON TO TIDE THE UNEMPLOYED OVER. THE SOCIAL WELFARE FUND ALREADY FACES AN IMMEDIATE THREAT OF EXHAUSTION. THERE IS MUCH TALK OF EMIGRATION, AND THIS TOO MAY BE A NECESSARY PALLIATIVE.

9. INFLATION. GOVERNMENT PUBLIC-WORKS PROGRAMS TO EASE UNEMPLOYMENT AND HELP THE REFUGEES, PLUS THE ANTICIPATED EASY-CREDIT POLICY TO FORESTALL BANKRUPTCIES, WILL PROBABLY GENERATE EXCESS DEMAND FOR STAPLES AND CONSTRUCTION GOODS (WHICH COME IN PART FROM AREAS NOW TURKISH.) THE LUXURY MARKET WILL PROBABLY BE DEFLATED (AUTOS ALREADY ARE REPORTEDLY OFFERED AT MANUFACTURER'S PRICE PLUS FREIGHT.)

10. PHYSICAL DESTRUCTION. WHILE THERE HAVE BEEN MANY PERSONAL TRAGEDIES, OUR OBSERVATION SUGGESTS THAT ACTUAL PHYSICAL DAMAGE IS NOT A MAJOR ECONOMIC PROBLEM, EXCEPT FOR THE DESTRUCTION OF HOTEL CAPACITY IN FAMAGUSTA, WHICH WOULD IN ANY EVENT HAVE BEEN LITTLE USED IN COMING MONTHS. SOME 20 PERCENT OF THE COMMERCIAL FOREST AREAS ARE SAID TO BE DESTROYED.

D. THE LONG TERM ISSUE.

11. THIS CAN BE STATED SUCCINCTLY: HOW TO FINANCE IMMEDIATE REFUGEE/REHABILITATION NEEDS WHILE MOVING TOWARD A TAX STRUCTURE WHICH CAN GENERATE THE NECESSARY REVENUES FROM A SUBSTANTIALLY POORER ECONOMY; AND HOW TO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 NICOSI 02723 02 OF 03 282042Z

BEGIN THE DEVELOPMENT OF LAOR-INTENSIVE AND EXPORT-ORIENTED PRODUCTIVE ACTIVITIES TO ABSORB REDUNDANT LABOR AND REPLACE SOME OF THE LAST INVISIBLES. (WE NEED HARDLY UNDERLINE THE POLITICAL DIFFICULTIES OF SUCH A PROGRAM.)

E. MEASURES THE GOVERNMENT CAN TAKE.

12. THE FOLLOWING POSSIBILITIES ARE ARRANGED FROM IMMEDIATE TO MEDIUM-TERM. THEY REPRESENT POSSIBILITIES RATHER THAN CONCRETE PROGRAMS. MOST WOULD INVOLVE A DEGREE OF INTERVENTION AND DIRIGISM UNPRECEDENTED IN CYPRUS AND WOULD REQUIRE AN INTEGRATED GOVERNMENTAL POLICY-MAKING MACHINERY WHICH DOES NOT YET EXIST OR SEEM TO BE IN SIGHT.

A. REFUGEE ACCOMMODATION. THE GOVERNMENT IS OPTING FOR TENT CITIES RATHER THAN DISPERSING THE REFUGEES. HOWEVER, AT

LEAST ONE NEARLY COMPLETED BUILDING (IN LARNACA) HAS BEEN
TAKEN OVER FOR REFUGEES. AS A RESULT OF THE RECENT BUILDING BOOM,
THERE IS MUCH EMPTY SPACE, PARTICULARLY IN NICOSIA. GOVT COULD
REQUISITION. (PLANNING DIRECTOR SAYS THERE ARE 3000 ROOMS
AVAILABLE IN NICOSIA.) WE HAVE BEEN TOLD THEY ARE
BEGINNING TO THINK ON THESE LINES. WHILE PERHAPS NOT
IDEAL, THIS SPACE COULD ACCOMMODATE THE REFUGEES WHO WILL
FLOCK TOWARD THE CITIES TO RETAIN OR TO SEEK EMPLOYMENT.
THE HILL VILLAGES OF THE SOUTH ARE NOW BULGING WITH SELF-
SUPPORTING REFUGEES. MANY OF THESE ARE BEGINNING TO DRIFT
BACK, AND THERE MAY BE SOME PROSPECT FOR ACCOMMODATION OF
HARD-CORE REFUGEES IN THOSE VILLAGES. THEY HAVE BASIC SCHOOL
AND ROAD INFRASTRUCTURE, BUT MOST HAVE BEEN UNDERGOING
DEPOPULATION FOR A GENERATION PRECISELY BECAUSE HILL AGRICULTURE
COULD NOT SUPPORT THE STANDARD OF LIVING AVAILABLE ON THE
MODERN ECONOMY. WITH THE GROWTH OF URBAN UNEMPLOYMENT, SOME
NATIVE FAMILIES WILL PRESUMABLY DRIFT BACK AND AT LEAST REMOVE
THEMSELVES AS A BURDEN ON GOVERNMENT, BUT REFUGEES WITHOUT
LAND AND LOCAL CONNECTIONS ARE UNLIKELY TO STAY. BROWN

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 NICOSI 02723 03 OF 03 282111Z

20

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 SR-02 ORM-03 L-03 H-03 PM-07 ACDA-19 SAM-01

SAJ-01 CG-00 DOTE-00 DLOS-07 FMC-04 DODE-00 PA-04

USIA-15 PRS-01 DRC-01 AGR-20 /247 W

----- 087379

R 281630Z AUG 74

FM AMEMBASSY NICOSIA

TO SECSTATE WASHDC 9750

INFO AMEMBASSY ATHENS

AMEMBASSY LONDON

USMISSION EC BRUSSELS

USMISSION NATO

USMISSION USUN NEW YORK

LIMITED OFFICIAL USE FINAL SECTION OF 3 NICOSIA 2723

B) DEBT MORATORIUM. IN THIS FAMILY-STYLE LITTLE ECONOMY, IT APPEARS THAT QUIET ARRANGEMENTS ARE BINE MADE TO AVOID FORECLOSURES. THE MINISTER OF FINANCE TELLS US THAT THIS WILL BE DONE, INFORMALLY.

C) PUBLIC WORKS. IN THE IMMEDIATE SENSE, MOST MAKE-WORK PROJECTS WOULD BE JUST THAT, THOUGH THERE IS MUCH SCOPE FOR LABOR-INTENSIVE LONG-TERM PROJECTS IN FORESTRY AND PERHAPS IN IMPROVING PRESENT PRIMITIVE AGRICULTURAL AND IRRIGATION PRACTICES. ONE PROJECT WOULD SEEM TO BE URGENTLY DESIRED. THIS WOULD BE TO SURVEY THE HOUSING NEEDS AND THE MANY BUILDINGS NEARING COMPLETION ON WHICH WORK WAS INTERRUPTED EITHER BY THE CREDIT SQUEEZE IN THE SPRING OR BY THE SUMMER'S CRISES. THE GOVERNMENT COULD UNDERTAKE TO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 NICOSI 02723 03 OF 03 282111Z

ASSIST IN FINANCING THE COMPLETION OF THESE BUILDINGS IN RETURN FOR ASSURED SPACE OVER A STIPULATED PERIOD TO HOUSE REFUGEES. THE PROJECT WOULD PROVIDE EMPLOYMENT IN CONSTRUCTION, AND THE OWNERS WOULD EVENTUALLY BENEFIT FROM COMPLETION OF THE BUILDINGS.

D) GOVERNMENT REVENUES. THIS WAS DISCUSSED IN REFTTEL. NO REAL MOVEMENT HAS YET BEGUN, AND THE PRESENT INDICATION SEEMS TO BE TO TRY TO WEATHER THIS CRISIS AND HOPE TO RETURN TO THE STATUS QUO ANTE.

CERTAINLY A PUNATIVE TAX ON GASOLINE IS NECESSARY. WHETHER OR NOT IT RAISES REVENUES, IT WOULD FORCE A SHIFT TO BUSES, CUT THE IMPORT BILL FOR GASOLINE, AND CONSERVE THE ISLAND'S AUTOMOBILES. THE GOVERNMENT CONSIDERED SUCH A TAX BUT ABANDONED IT BECAUSE OF THE PROBLEM IT WOULD CREATE FOR THE REFUGEES.

A WHOLE NEW TAX STRUCTURE WILL BE NECESSARY, POSSIBLY INVOLVING RECOURSE TO A TURNOVER TAX, BUT THE PROBLEM IS TOO COMPLEX FOR THIS PAPER OR ITS AUTHOR.

E) GRAIN PURCHASES. THE GRAIN COMMISSION LOST SOME 30,000 TONS OF STORED WHEAT, STILL HAS 12,000 TONS OF SOFT WHEAT WHICH IT ESTIMATES IS THREE MONTHS' CONSUMPTION (PROBABLY OPTIMISTIC.) THE GOVERNMENT WILL HAVE TO IMPORT GRAIN AND RPBABLY WILL NEED TO ASSIST IN THE IMPORT OF OTHER STAPLES, GIVEN THE DEMORALIZED CONDITION OF THE IMPORTERS.

F) LONG TERM EMPLOYMENT OPPORTUNITIES. THE RETURN TO TRADITIONAL AGRICULTURE IS THE LEAST ATTRACTIVE POTENTIAL SOLUTION, BUT OTHER SOLUTIONS ARE NOT EASY TO COME BY. SUPERFICIALLY, THE MOST ATTRACTIVE WOULD SEEM AN EFFORT TO EXPLOIT CYPRUS' WEATHER AND THE PROSPECT THAT ITS ENERGETIC PEOPLE WILL CONSTITUTE GOOD LOW-COST LABOR FOR SOME YEARS. EFFORTS COULD BE INTENSIFIED TO EXPAND CYPRUS' EXISTING PLACE IN THE EUROPEAN MARKET FOR EARLY POTATOES AND EARLY GRAPES, AND TO FIND OTHER SUCH OPPORTUNITIES (ALTHOUGH SUCH MARKETS PRESUMABLY ARE PARTICULARLY DEPENDENT UPON CONTINUED EUROPEAN PROSPERITY AND UPON EC TOLERANCE OF INCREASED IMPORTS.) CYPRUS ALREADY EXPORTS SHOES AND CLOTHING. BOTH INDUSTRIES ARE LABOR-INTENSIVE AND LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 NICOSI 02723 03 OF 03 282111Z

REQUIRE LITTLE CAPITAL, AND EXPERTISE EXISTS ON THE ISLAND. THE SYSTEMATIC ENCOURAGEMENT OF FOREIGN INVESTMENT IN ASSEMBLY OPERATIONS COULD BE PROFITABLE, IF THE FOREIGNER DOES NOT NEED TO COMMIT HIMSELF TO HEAVY PHYSICAL INVESTMENT.

G) TOURISM. HOTEL CAPACITY HAD BEEN OVERBUILT, ABOUT HALF OF IT ON EITHER SIDE OF THE "ATTILE LINE" AND 40 PERCENT OF IT IN FAMAGUSTA ALONE. THE TURKS, WITH CONTROL OF THE KYRENIA COAST, ADMITTEDLY HAVE THE BEST POTENTIAL TOURIST AREA IF THEY CAN EXPLOIT IT. THE FEW GOOD HOTELS ON THE SOURHC COAST ARE PROBABLY SUFFICIENT FOR ANY TOURISM TO BE EXPECTED IN THE NEXT YEAR OR SO. IF, HOWEVER, THE GREEKS COULD RECOVER FAMAGUSTA, THEY WOULD RECOVER THE STRIP OF MIDDLE-PRICED HOTELS WHICH HAS HERETOFORE GENERATED MOST TOURIST EARNINGS. FAILING THAT, NEW CONSTRUCTION COULD BECOME NECESSARY TO REHABILITATE AN INDUSTRY PARTICULARLY WELL ADAPTED TO CYPRUS' NEEDS. BROWN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC DEVELOPMENT, ECONOMIC ASSISTANCE, POLITICAL SITUATION
Control Number: n/a
Copy: SINGLE
Draft Date: 28 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974NICOSI02723
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740239-0061
From: NICOSIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740811/aaaaajhi.tel
Line Count: 473
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 9
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: NICOSIA 2713
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 05 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 APR 2002 by shawdg>; APPROVED <26 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: POST-WAR CYPRUS ECONOMY
TAGS: ECON, EAID, CY
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005